

Albania's Foreign Trade During the Period 1945-1961: Impact of Rapid Industrialisation Strategy

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Abstract

In the People's Republic of Albania, foreign trade played an important role in the national economy because it provided machinery, equipment, consumer goods, and technological expertise that Albania could not produce on its own. Moreover, by engaging in trade initially with the Soviet bloc and later with China, Albania was able to secure the capital required for industrialization without putting undue pressure on its economy. This was due to the absence of immediate payment obligations, the flexibility of loan terms, and the frequent conversion of loans into grants. Foreign trade also indirectly reflected the internal economic situation of Albania, the crises in its relations with other communist countries, and the flow of capital in the economy. Therefore, for the objectives of this study, it is essential to consider this economic sector.

Keywords: Foreign trade, Cold war, Industrialisation, Albania, Soviet bloc.

1. Introduction

In the People's Republic of Albania, foreign trade played an important role in the national economy because it could provide machinery and equipment, consumer goods, and technological expertise, which it could not produce on its own. Moreover, by engaging in trade initially with the Soviet bloc and subsequently with China, Albania was able to receive the capital required for industrialization without putting its economy under pressure. This was due to the absence of immediate payment obligations, the flexibility of loan terms, and the frequent conversion of loans into free grants.

Foreign trade indirectly reflected the internal economic situation of Albania, the crises in its relations with other communist countries, and, as two economic analysts say in their report to the American Congress, the extent of foreign capital flow ("internationalist aid") to the Albanian economy:

"The extent of aid may be gauged from ... the excess of imports over exports during 1951-58, most of the capital goods going to industry."

Therefore, for the sake of the objectives of the study we must take this economic sector into consideration.

It is true, at least in the Albanian case, that its foreign policy generally influenced foreign economic relations. Following the breakup of political relations with Yugoslavia,

three distinct phases define the evolution of Albanian international commerce from 1948 until 1990:

- *The first*, encompasses the period of active cooperation between Albania, the Soviet Union, and the socialist countries of Eastern Europe and extends from 1948 to 1961.
- *The second* phase refers to the period from 1962 to 1978, during which the Albanian regime's leadership shifted its political and ideological alliance from Moscow to the People's Republic of China, due to the latter's "ideological differences" with the Soviet Union.
- *The third* phase starts with the dissolution of the Sino-Albanian alliance and continues until the regime's downfall (1978-1991). During this period, the communist regime in Albania, for the first time, found itself without a patron state and deprived of foreign loans and grants.

Foreign commerce was the principal source of revenue for the Albanian economy, allowing for the financing of modern enterprises as well as agricultural expansion. Certainly, given Albania's continuously negative trade balance, the only way to achieve its goals was to trade with socialist countries, supported by loans that could be returned through time-stretched exports and a barter system in trade exchanges.

In post-World War II Albania, the decree of December 15, 1944, made all foreign trade transactions subject to government regulation. Article 7 of the People's Republic constitution, approved on March 14, 1946, sanctioned the state's monopoly on foreign trade. In the same year, all export-import enterprises were nationalized, giving the government complete authority over all foreign transactions.

With the exception of Yugoslavia, the Albanian government moved faster than any other Eastern European country to control its foreign trade. The Albanian Ministry of Foreign Trade, the Commission of the State Plan, and state export-import companies were responsible for overseeing export operations. Meanwhile, Bulgaria, Romania, and Czechoslovakia obtained complete control of foreign trade in 1948, while Hungary and Poland only sanctioned the state monopoly in 1949 and 1952, respectively. However, accurate Albanian foreign trade planning based on the Soviet model was not implemented until 1959.

The ambitious industrialization program, which necessitated capital investment and loan acquisition from the Soviet bloc, significantly influenced Albania's foreign trade in the post-World War II era. At the same time, the neglect of the agricultural sector led Albania to utilize a portion of commercial credits for the import of large quantities of cereals and food products.

Specifically, the first period was characterized by the absence or minimization of commodity trade with traditional partners. After 1948, the severance of relations with Yugoslavia was added to the lack of trade relations with Italy and Greece, as well as diplomatic relations with the latter. From a strictly commercial perspective, Albania radically changed its trade partners after the Second World War, aligning foreign trade with the new political orientation. This is the case for all Eastern European countries. However, other Eastern European countries, whose geographical position differed from

Albania's and whose regimes were less dogmatic, did not face the same pressure to make drastic changes in their economic partners. The direct consequences of this were:

- Firstly, the only way for foreign trade remained the maritime one, in conditions when land routes passed through “hostile” Yugoslavia.
- Secondly, Increased transportation costs in addition to other obstacles brought by distance.

2. Trade exchanges with Yugoslavia (1945-1948)

Albania signed its first trade agreements after the war with Yugoslavia in February 1945 and the Soviet Union in September 1945. For the entire period 1945–1948, Albania had a dominant and almost sole partner in foreign trade—Yugoslavia – accounted for over 95 % of Albania's exports and imports, see Figure 1. On February 22, 1945, in Belgrade, Albania and Yugoslavia signed the first commercial economic agreement ("Agreement on Economic Cooperation between Yugoslavia and Albania"), which also led to the conclusion of a short-term commercial agreement. It was signed for the Provisional Democratic Government of Albania by the Minister of Economy and Industry, Mr. Medar Shtylla, and for Yugoslavia by the Minister of Economy, Mr. Zvonko Pifat.

Yugoslavia agreed to purchase 100 tons of wool fibres and other goods from Albania in November-December 1945, based on 1938 prices. Yugoslavia would export cereals, construction materials, and other food items to Albania. In general, in 1945, Albania exported to Yugoslavia: wool fibres, olive oil, bitumen and asphalt, washing soap, leather, salt, oil, kerosene for lighting, etc. It is interesting that exports to Yugoslavia included among others and:

“Eight thousand square meters of window glass, 500 pieces of “Telefunken” radio, and 4 tons of trichlorethylene.” [2].

(The only explanation is that the Italian invaders must have left behind stocks of these goods, which Albania did not produce) [3].

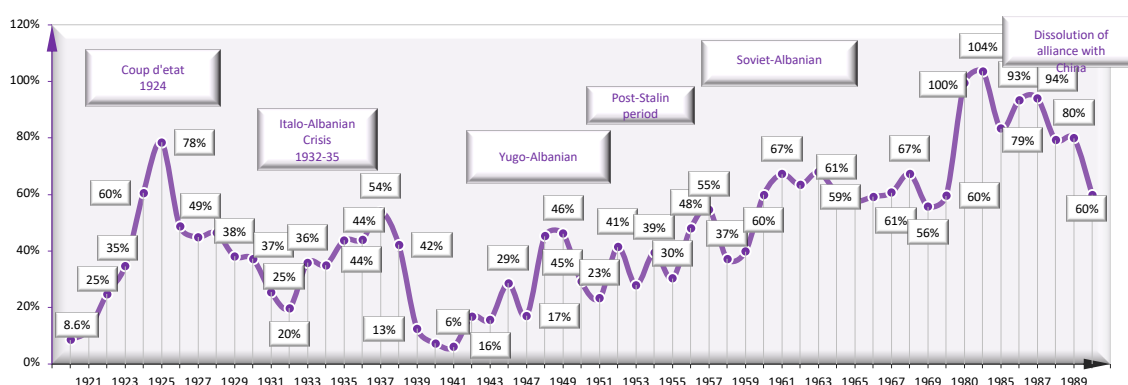


Figure 1. Albania's foreign trade balance (Export-to-Imports ratio 1921-1990) [4]

“Jugopetrol” and the Ministry of Economy of Albania signed a contract in October 1945 for the purchase of all surplus Albanian oil production. The value of trade exchanges during 1945 between the two countries reached almost 40 million dinars (about \$800 thousand). The deficit was minimal, with the export-import ratio standing at 91%, and it

was expected to be rectified by September 1946. According to the terms of these bilateral trade agreements, Yugoslavia had the exclusive right to purchase all of Albania's products for export.

The establishment of the Albanian-Yugoslav Import and Export Company on January 15, 1947, aimed to develop trade between Albania and Yugoslavia. In fact, the establishment of this joint company, along with the trade agreements of March 1947, contradicted the Albanian constitution, forcing the Albanian government to relinquish its monopoly on foreign trade and share it with a foreign company. This company had its headquarters in Tirana and an office in Belgrade. She was responsible for the planning and smooth running of trade exchanges between the two countries. The impetus for trade exchanges was a loan of 2 billion dinars (\$40 million) granted on June 12, 1947, by Yugoslavia. Albania expected to use half of the loan for the purchase of consumer goods and the rest for supply of industry.

The next two years (1946-47) will witness a significant trade deficit due to the imbalance between imports and exports. Thus, estimates for 1947 placed Albania's imports at 34.5 million dollars, whereas export earnings stood at a mere 2.4 million dollars. Therefore, the export/import ratio was approximately 7%, although Chart 1, based on Andy Shnytzer's data, presents a higher figure of 17%. Albania used the UNRRA aid and credit provided by Belgrade under the terms of the Albanian-Yugoslav Trade Convention, signed on November 27, 1946, to cover this deficit. Imports from Yugoslavia accounted for 96% of the value of all Albanian imports for 1947. Following the signing of the agreement (convention) on November 27, 1946, Yugoslavia and Albania had no custom tariffs in their trade exchanges, and there was set parity between the Albanian lek and the Yugoslav dinar. This means that Albanian goods were bought with lower prices by Yugoslavia. We can say that the agreement between the two countries facilitated a significant increase in trade, allowing Albania to rely heavily on Yugoslav imports. The absence of tariffs and the established currency parity further strengthened their economic ties during this period.

By July 1948, when trade relations between the two countries broke up, Belgrade declared that Albania had spent about 1.4 billion dinars (\$28 million), or 70%, from the Yugoslav loan. Vladimir Didijer, in his book *"Il Sangue Tradito"* ("The Betrayed Blood"), provides an even higher figure of approximately 1.55 billion dinars. However, the Albanian authorities reported that Yugoslavia had disbursed 650 million dinars by December 1947 and a total of 880 million dinars (\$17.6 million) by July 1948. Based on the volume of commercial exchanges between the two countries from June 1947 to June 1948, we estimate the disbursement of at least half of this credit. In 1947, Albanian exports into Yugoslavia were about 500 million dinars, and in the first three months of 1948, 290 million dinars. In fact, both parties acknowledge that about 850 million dinars remained unpaid from the granted loan. If we consider the commercial exchanges, it appears that both parties stated the same thing, given that Albania's exports have partially repaid the loan.

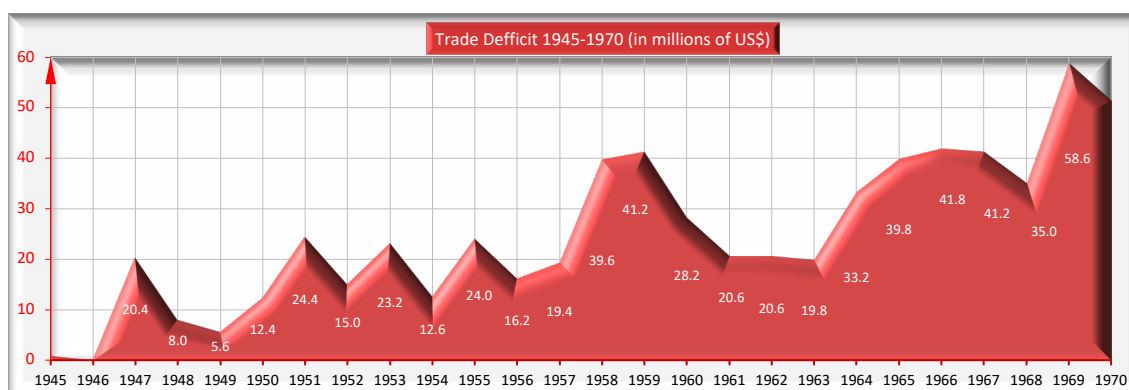


Figure 2. Trade deficit as the difference between imports and exports (in millions of US dollars, at 1971 prices) [11]

This meant that purchasing Albanian goods or raw materials for Yugoslavia became cheaper. In his book, *Vladimir Didjer* provides a detailed explanation using examples of goods and prices in the Albanian market. However, he confuses the figures of the lek's exchange rate with the dinar and the Albanian franc's exchange rate with the dinar, leading to the absurd conclusion that Albania benefited from parity of currencies. When he discusses the exorbitant prices of Albanian copper ore in the same publication and the losses incurred by Yugoslavia from re-exporting it to international markets, his entire argument unravels. Without arguing whether it was fair in the long run, the parity of the currencies resulted in lower prices for Albanian goods in the Yugoslav market. Therefore, the currency parity had negative effects on the Albanian economy. In fact, Didjer himself admitted in 1971 that there were “many defects” in his 1949 book [11].

The agreement on parity of currency that quisling Prime minister Vërlaci signed with Fascist Italy in April 1939 is identical to this one. Even the effects seem the same; for example, Albanian exports covered in 1947 only 17% of Yugoslav imports, while in 1939 they covered only 13% of Italian imports, see Figure 1.

3. The persistent negative trade balance

During the crisis of relations between Albania and Yugoslavia in 1948, there was a noticeable decrease in the difference between exports and imports, which coincided with a reduction in the volume of trade exchanges. This phenomenon remained consistent throughout the period under review. Other crises in Albania's relations with the main ally were 1954–1956, 1961 with the Soviets, and 1978 with China.

Figure 1 shows that the political crises have immediately influenced the trade balance and decreased the deficit in foreign commodity trade. But as shown in Figure 1, years of political crises have also traumatized trade relations in general and reduced the volume of commodity exchanges. In this way, the conclusion of an author about Albanian foreign trade of this period, is correct:

“It is therefore reasonable to refer to “political” foreign trade, or at least foreign trade that is particularly sensitive to foreign policy” [12].

Therefore, political decisions based on “Marxist ideology” played a decisive role in foreign trade, rather than the usual. This is especially true in the case of Yugoslavia and the USSR, because Albania was deeply dependent on trade exchanges with these countries. For example, in 1949, a year after breaking up with Yugoslavia, the total volume of foreign trade was almost two times lower than in 1947.

Figure 1 depicts the persistence of the negative trade balance as it was before the Second World War. The chart highlights the significant negative balance during the invasion. Of course, in addition to imports of commodities required to maintain approximately 100,000 Italian soldiers, another factor contributing to this negative balance in foreign trade appears to have been the influx of Italian capital and investments in Albania during the occupation. Also, should mention that there is significant variation in the data for Albanian foreign trade from various sources.

Figure 2 gives a similar depiction of the foreign trade deficit for the period from the end of World War II until 1970. This chart clearly demonstrates that the passive balance between exports and imports first emerged after 1947, and it began to improve in the years 1948–1949. Once Soviet financial support started after 1949, the deficit rapidly increased, averaging \$23-28 million annually from 1950 to 1961 and totalling approximately \$250–350 million for the period from 1949 until 1961.

Foreign financial contributions aided the communist regime's aggressive industrialization policy. The Soviet Union and other socialist countries provided loans under preferential terms to cover Albania's trade deficit while also aiding in the development of its industry. Albanian leaders hoped that the expansion of processing, agricultural, and mining industries, leading to rapid industrial development, would broaden product exports and boost the country's export capacity. Nevertheless, Figure 1 shows that only in the early 1980s did the deficit in foreign trade approach zero.

The situation reversed during periods of increased foreign financial aid. The ratio of exports to imports drops to 23% at the beginning of the financing of the Albanian economy by the Soviet Union (years 1950–51). After a period of gradual improvement in the trade deficit, which reached a peak in 1955 with exports covering 54% of imports, the ratio dropped again to 37% in 1957, see Figure 3. The exports-to-imports ratio consistently exhibits the same fluctuations as the Albanian regime's relations with allies.

4. Foreign trade after 1948

Political developments within the bloc of socialist countries—the breakup of Yugoslavia from the USSR and Tirana's close alliance with Moscow and the Soviet bloc, created a new and more favourable situation for Albania. In April 1949, Albania signed a package of economic, political, and military agreements with USSR. Also, Albania was co-opted shortly after its application to the CMEA (Council of Mutual Economic Assistance) on February 21, 1949.

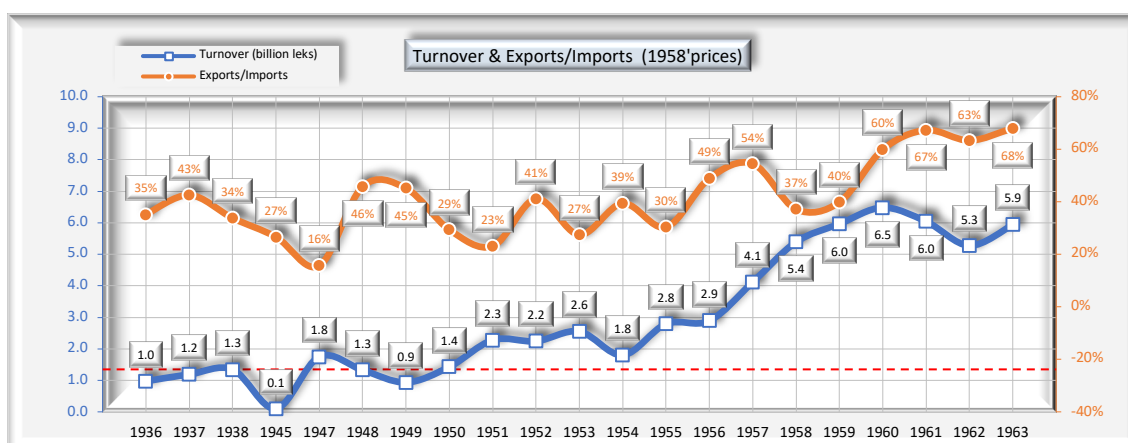


Figure 3. Trade turnover per capita in billion leks and export-to-imports ratio in % at 1958 constant prices (1936-1963) [17]

Prime Minister of Albania Mr. Hoxha, made diplomatic effort in all Eastern European countries, resulting in the signing of trade agreements, most under credit conditions, between 1949 and the beginning of 1950. Albania thus had the opportunity to import from the Soviet Union and the “people's democracies” all the necessary equipment for the constructing new industrial enterprises and needed industrial raw materials and foodstuffs. Moreover, the Soviet Union, since the establishment of the CMEA, exerted pressure on member countries to reduce trade with capitalist countries and to strengthen the economic integration of the socialist camp, see Table 1. This was actually in the interest of the economies of backward socialist countries, such as Albania in the late 40s.

Table 1. Trade internal soviet bloc as a %age of total [19]

Country	Trade with (%age of total)						
	CMEA* and China					USSR	
	1937	1948	1949	1950	1951	1937	1951
Albania	4.8%	38%	100%	100%	99%	0%	58%
Bulgaria	12.0%	74%	82%	88%	92%	0%	58%
Czechoslovakia	11.0%	30%	45%	52%	60%	1%	28%
Hungary	13.0%	34%	46%	61%	67%	0%	29%
Poland	7.0%	34%	43%	59%	58%	1%	25%
Romania	18.0%	71%	82%	83%	79%	0%	51%
Average	12%	...	51%	...	65%	...	31%
People's Republic of China	...	...	...	26%	61%	...	...
East Germany	17%	75%	77%	86%	79%	...	...
USSR	4%	...	...	...	80%	...	...

*East Germany excluded

However, until the early 1950s, in the volume of foreign trade, Albania had not reached the pre-war level. Figure 3 presents trade exchanges per capita at constant prices for the period before and after the Second World War. Even in 1954, the trade volume was only 7% higher than in 1938, while the trade deficit until the end of the 1950s was similar to the 1930s. The average export-import ratio in the years 1945-1959 was 39.8%, while for the years 1926-1938 it was 39.1%. But the instability in the first years after the war is evident. In the years 1945-1950, the export-import ratio varies from 16% to 93%. However, even during the 1950s, the export-import ratio experienced significant fluctuations, ranging from 23% to 54%. Even for the period from 1926 to 1938, this ratio fluctuated between 25% and 50%.

5. Geographical reorientation of trade routes

From 1948 to the early 1950s, the USSR was Albania's main trading partner. In 1951, the Soviet Union accounted for nearly 60% of Albania's foreign trade, with the remainder coming from countries in Eastern Europe, see Figure 4. In contrast, before WWII, Albania's main trading partners were Italy, Greece, and the United States. It is quite interesting to note that not only did these countries cease to be Albania's main trading partners after the Second World War, but ideological considerations completely cut off trade with them, thereby distorting its natural channels of communication in the exchange of goods.

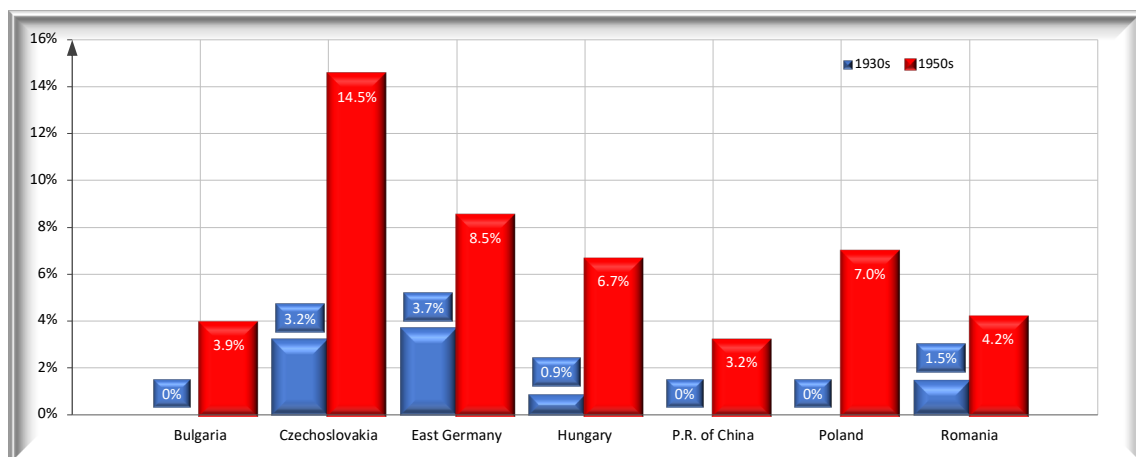


Figure 4. The volume of Albania's exchanges with several countries in % of the total for 1938 and 1950s [22]

Albania, which during the 1920s and 1930s had a Western orientation in political and economic relations, found itself again, this time due to ideological dogmatism, under Eastern domination for nearly 50 years. Forced changes in the direction of trade routes resulted in additional costs in transportation, difficulties in timely completion of contracts, and an unnatural state of isolation in relations with neighbouring countries. For Albania, the geographical shift in economic relations was total. (see Table 1). Albania before the war had a negligible volume of trade exchanges with the new communist allies (only 5%). In fact, intensive economic relations with the socialist bloc began in the middle

of 1948. Table 1 reveals that Albania, despite the unfamiliarity of its new partners, exclusively engaged in trade exchanges with Eastern European and USSR countries after 1948. Figure 4 compares trade exchanges in 1938 and in 1950s with Eastern European countries. In general, we can say that Albanian foreign trade had changed direction by 180 degrees, from the West to Eastern Europe after WWII.

Following WWII, all nations under Soviet domination faced the same situation. Eastern European countries, to varying degrees, had to shift their economic relations. Prior to the Second World War, the USSR and other Eastern European countries prioritized trade exchanges with the West, particularly with Germany. Even for some of these countries, Germany used to be the most important trade partner in 1930s. In 1938, Germany's share in the foreign trade of the other three socialist Balkan countries was as follows: 59% of exports and 52% of imports for Bulgaria, 52% of exports and 39% of imports for Yugoslavia, while its share in trade with Romania was 40% of imports and 36.5% of the total trade volume. Albania's foreign trade is similar only that in the place of Germany was fascist Italy. In 1930s, Italy accounted for an average 67% of Albania's exports, while its import share was 36.7%. Germany had a considerable influence on the foreign trade of other Eastern European countries as well. In 1938, it accounted for 23% of Poland's foreign trade, and in 1937, for 40.8% of Czechoslovakia's trade. While, before WWII, Soviet trade with the Eastern European countries was negligible.

Following the war, the CMEA member countries experienced a shift in their foreign trade partners' configuration. By the end of 1951, the Soviet Union accounted for 25% of Poland's foreign trade, over 58% of Bulgaria's, 28% of Czechoslovakia's, and approximately 51% of Romania's total foreign trade (see Table 1). However, it's important to note that while the socialist countries' trade exchanges with each other accounted for an average of 51% of the total volume in 1949, Albania's trade exchanges with socialist countries accounted for 100%. Albania, more than other communist countries, had adopted a hostile and xenophobic foreign policy towards Western countries. Consequently, in the 1950s, apart from the CMEA countries, only two or three Western European countries maintained diplomatic relations with Albania, apart from four Asian communist states (China, North Korea, North Vietnam and Mongolia). Albania had no diplomatic relations with the United States or Great Britain. Furthermore, relations with neighbors remained at a low level, despite some signs of rapprochement vis-à-vis Yugoslavia and Italy.

6. Structure of foreign trade

State-owned export and import enterprises carried out foreign trade on the basis of intergovernmental agreements. In most cases, these agreements from the early 1950s with the countries of the Soviet bloc were long-term. Crude oil, natural bitumen, chrome ore, blister copper, hides, tobacco, citrus fruits, salted olives, and olive oil dominated Albania's exports in the 1950s. As was typical in the late 1930s, the predominance of raw materials, especially mineral ores, in Albania's exports was evident even in the 1950s. During this 10-year period, up to 70% of all Albanian exports were mineral ores and crude oil (refer to table 2 for 1955).

Table 2. Structure of Albanian exports (1950-1964) [23]

Nomenclature	1950		1955		1960		1964	
	Million Leks	%	Million Leks	%	Million Leks	%	Million Leks	%
Machinery and equipment		0.0%	3	0.5%		0.0%		0.0%
Petroleum, minerals and metals	201	62.0%	459	70.6%	1,357	55.9%	1,625	54.2%
Chemicals and rubber	-	-	-	-	7	0.3%	6	0.2%
Construction materials		0.0%		0.0%	39	1.6%	-	-
Agricultural & livestock raw products	105	32.4%	171	26.3%	468	19.3%	518	17.3%
Industrial crops	-	-	3	0.5%	1	0.0%	1	0.0%
Foodstuff	17	5.2%	14	2.2%	477	19.6%	691	23.1%
Consumer goods	1	0.3%		0.0%	79	3.3%	155	5.2%
Total	324	100%	650	100%	2,428	100%	2,996	100.0%

However, the investments in the light and food industries resulted in an increasing share of industrial products in exports, from 5.2% in 1950 to nearly 20% in 1960. From 1950 to 1960, the value of agricultural raw materials exported increased by only four and a half times, whereas that of food products increased by almost 30 times. This demonstrates the economic benefits of exporting processed products to foreign markets. Naturally, the fixed prices of goods applied in the markets of the "people's democracies". On the other hand, Albania faced challenges in fulfilling agreements with the socialist countries due to its unfavourable geographical position and the lack of alternative routes for transporting goods. Moreover, the limited export capacities of the Albanian economy influenced its trade deficit. Albanian leaders were of the opinion that the country's limited export resources would be a temporary phenomenon, and the way to overcome the trade deficit was the development of the manufacturing industry equipped with modern Soviet technology.

Machinery and equipment dominated imports, accounting for nearly half of the total. As shown in Table 3, the value of machinery and equipment imports in 1960 (almost 2 billion leks) compared to 1950 (340 million leks) increased by almost 5.5 times, which reflects the government's priority for industrial development. On the other hand, there was a simultaneous increase in the imports of agricultural goods, primarily cereals. Share in the imports of agricultural products increased from 7.4% in 1950 to 20% in 1960, and then to about 28% in 1961. The collectivization of agriculture and the low capital investments in this sector contribute to the difficulty in agricultural production.

Table 3. Structure of Albanian imports (1950-1964) [14]

Nomenclature	1950		1955		1960		1964	
	Million Leks	%	Million Leks	%	Million Leks	%	Million Leks	%
Machinery and equipment	340	30.8%	889	42%	1,901	47%	2,434	50%
Petroleum, minerals and metals	176	16.0%	298	14%	513	13%	734	15%
Chemicals and rubber	58	5.3%	210	10%	245	6%	350	7%
Construction materials	11	1.0%	26	1%	55	1%	55	1%
Agricultural & livestock raw products	64	5.8%	189	9%	240	6%	227	5%
Industrial crops	82	7.4%	218	10%	797	20%	774	16%
Foodstuff	372	33.7%	311	15%	303	7%	332	7%
Total	1,103	100%	2,141	100%	4,054	100%	4,906	100%

Only the crude oil export to the CMEA countries, primarily to the USSR and East Germany, experienced rapid growth in the second half of the 1950s, with an average annual growth rate of 17.3%. The crude oil exports, which started at 67 thousand tons in 1950, reached 330 thousand tons in 1960. Oil production surpassed that of 1938 with the discovery of new oilfields in 1956. But until the establishment of the oil refinery "J.V. Stalin" in Cërrik with a capacity of 150,000 tons, Albania refined only 30,000 tons (in Kuçova) and had to import significant amounts of processed oil and its by-products. However, it is noteworthy that Albania exported substantial amounts of oil to the Soviet Union, which is among the world's largest oil exporters. In 1956, the oil refinery in Cërrik began operations, and in 1957, the Stalin City Refinery in Kuçova underwent reconstruction and expansion. This resulted in a threefold increase in refined oil production, allowing for the local processing and export of all extracted oil at more favourable prices in foreign markets. For export destined almost all the extracted bitumen, chrome, and copper, with the addition of iron-nickel extraction of which started at the end of the 1950s. Albania exported the majority of minerals unprocessed, with the exception of bitumen and a part of copper that underwent initial processing.

During the Second 5-Year Plan from 1956 to 1960, production of chrome and blister copper increased by 70% and 25%, respectively. In 1959, the extraction and export of iron nickel started, and within a year, it reached a production level of 147 thousand tons. The USSR and the countries of Eastern Europe in 1960 continued to dominate Albanian trade, accounting for nearly 89% of it. Albania primarily imported means of transport from Czechoslovakia, machinery for mining, locomotives and wagons for railway transport from Poland, and oil by-products from Romania. On the other hand, crude oil, natural bitumen, chrome ore, blister copper, leather, tobacco, citrus fruits, salted olives, and olive oil continued to dominate Albania's exports.

In the 1950s, the average annual growth rate of Albanian trade was 16%. It was promising because exports increased by 22% per year, while imports only increased by 14%. The fact that exports rose more quickly than imports indicate a favourable trend toward balanced international trade. Soviet specialists were beginning to show results from their plan to make Albania's economy self-sufficient within 15 years.

Important for Albania's foreign trade was the expansion of exchanges with countries outside the Soviet bloc. Italy and Albania signed an agreement on June 22, 1957, implementing the Paris Peace Treaty of 1947, which concerned war reparations. Ten years of negotiations resulted in a reduction of reparations from \$5 million to \$2.6 million, which Italy agreed to pay in the form of goods and equipment within two years. This brought about an increase in Albanian imports from Italy and a passive balance in Albania's trade exchanges with Italy. However, in 1959, Albania's trade exchanges with Western countries totalled 3.9 million dollars—a figure that, although it constituted only 3.3% of its total trade, was a sign of the initiative to expand foreign trade with non-communist countries.

7. The deficit covered by loans

Since the late 1940s, Albania has developed trade ties with every member of the CMEA, usually using trade credits provided by these nations to make up the difference. In particular, the trade imbalance remained concerning until 1950–1951. In 1950, exports covered only 29% of Albania's imports, and in 1951, as the trade balance worsened, exports covered less than 25% of imports (see Figure 1). But as the trade balance started to improve toward the end of the 1950s, the export-to-imports ratio increased from 54% in 1957 to 67% in 1961.

With the development of light and food processing industries, as well as with the reconstruction and expansion of the mining industry, the range of exports expanded, and the country's export potential increased rapidly during the 1950s. However, the deficit in foreign trade was not a temporary phenomenon. In the mid-1950s, Albania's imports were on average twice as much as its exports. The Soviet Union and the so-called people's democracies in Eastern Europe continued to provide loans and credits on preferential terms to cover the Albanian passive trade balance (Figure 5).

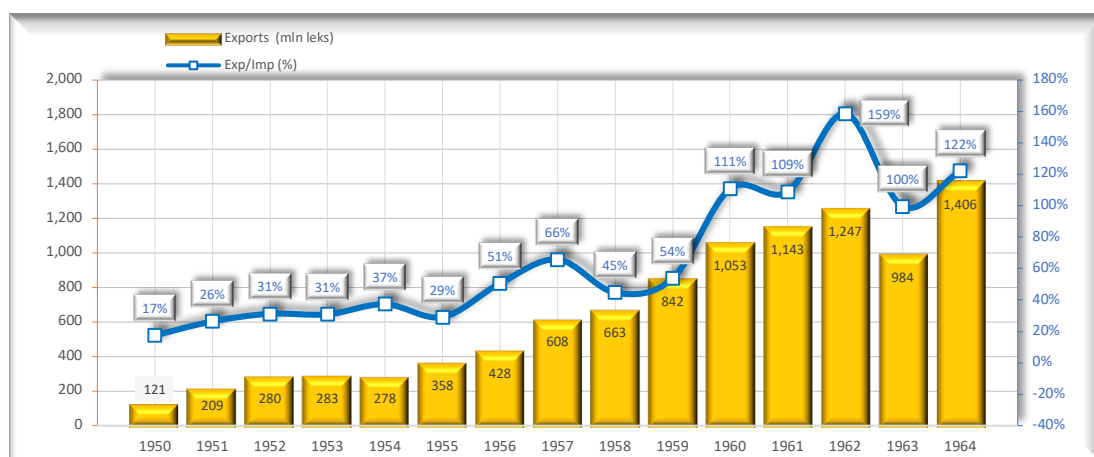


Figure 5. Albania's trade balance (exports-to-imports ratio) and exports to CMEA's members (without USSR) in million leks (1950-1964) [14].

The USSR, at the end of the 1940s, had absorbed all the goods from Albania designed to export in order to help the Albanian economy. After the period 1949–1950, Albania expanded its economic relations and trade exchanges with the other six member countries of CMEA in addition to the USSR. As a result, during the years 1951-1960, trade with the CMEA countries without the Soviet Union averaged about 45 % of Albania's total trade volume (see Figures 5 and 7).

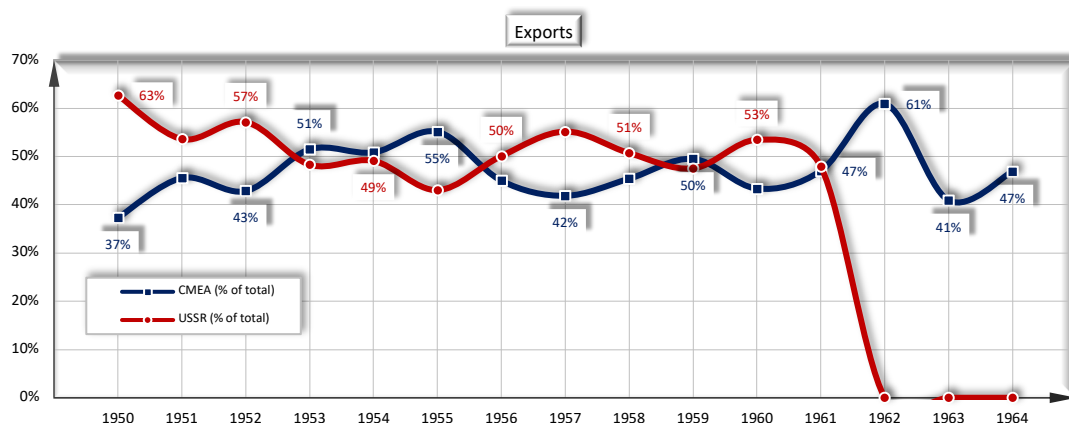


Figure 6. The share of exports to the USSR and other CMEA member countries as %age of the total (1950-1964) [14]

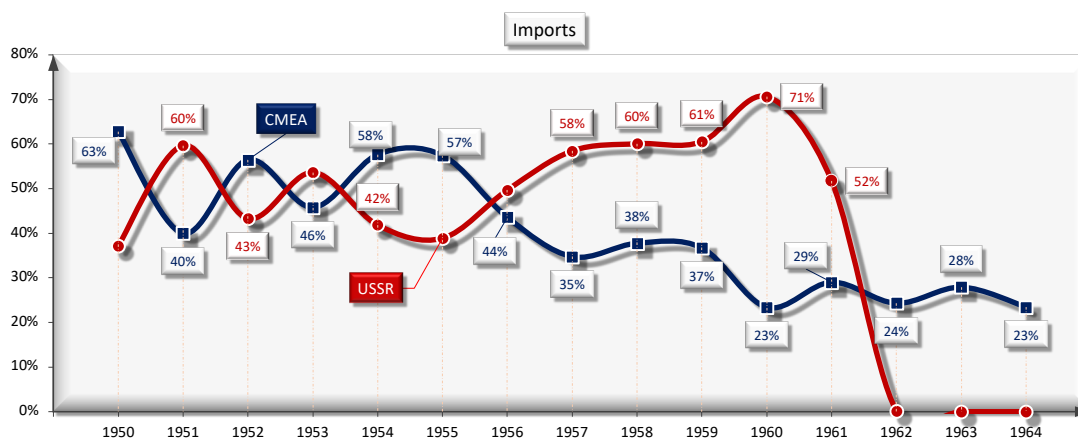


Figure 7. The share of imports from the USSR and other CMEA member countries as %age of the total (1950-1964) [14]

Figures 6 and 7 reveals that the USSR and the rest of CMEA member countries held nearly equal weight in trade exchanges, particularly in Albania's imports during the early 1950s. Following 1956, it appears that the Soviet Union's focus on Albania intensified, with its imports accounting for 70% of the total in 1960, while those from other CMEA countries made up only 23%. As for exports after 1956, Eastern European countries together had a slight advantage over the USSR. However, during the second half of the 1950s, there was a tendency to reduce the volume of commercial exchanges with the

CMEA countries without the USSR, primarily due to an increase in imports from the Soviet Union and an increase in Albania's trade outside the CMEA, see Table 4.

Table 4. Albania's Trade Turnover with CMEA members in million US\$ (1950-1960)
[24]

Year	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
Total CMEA	28.5	48.7	44.9	51.0	37.2	55.8	57.8	82.3	107.8	119.3	124.5
CMEA % of total	100%	99%	100%	99%	99%	95%	88%	87%	94%	93%	88%
USSR % of the total	43.0%	58.0%	47.2%	52.0%	43.3%	37.7%	43.8%	49.7%	54.1%	53.1%	56.1

Table 5 shows that, at current prices, the volume of trade exchanges with the CMEA countries and the Soviet Union doubled in 1960 compared to 1950. In 1950, Albania ranked second after Czechoslovakia in terms of trade volume within the CMEA per capita; however, it occupied only 0.3-0.5% of the total trade volume within the organization.

Between 1954 and 1960, is evident is the rise in the volume of Albania's foreign trade, on average, 22.5% per year, which was the highest rate among Eastern European countries, including the Soviet Union. Albania's commercial exchange volume increased from 37 million dollars in 1954 to approximately 125 million dollars in 1960. Additionally, the proportion of exports to the total increased, indicating a positive trend in reducing the trade deficit in the second half of the 1950s (see Table 5). Only Poland and Yugoslavia, apart from Albania, had a trade deficit in 1954, with exports accounting for 88% and 71% respectively, while Albania's exports only accounted for 39% of its imports. Albania's trade deficit slightly decreases to 60% in 1960 and approaches Yugoslavia's deficit of 69 %, yet it still lags behind the export/import balance of all other CMEA countries (105% in 1954 and 99% in 1960).

The People's Republic of Albania's foreign trade exchanges grew due to investments prioritized in the processing industry during the period 1950-1960. The deficit in trade with the Soviet Union and the CMEA countries, despite the development of the mining industry and the increase in the volume of exports, continued to be chronic throughout the 1950s. From a deficit of 26 million US dollars per year in the period 1949-1953, the average annual difference between imports and exports in the period 1950-1960 increased to over 1 billion 400 million lek, or approximately 30 million dollars. Only in 1959 did the foreign trade deficit surpass 50 million dollars. Undoubtedly, trade exchanges with the Soviet Union significantly contributed to the increase in the trade deficit. However, other CMEA countries experienced the same phenomenon on a smaller scale in the late 1950s.

Table 5. Trade within CMEA in million US\$ (1954 and 1960) [31]

Country	Turnover			Export			Export /Import	
	1954	1960	Annual Growth	1954	1960	Annual Growth	1954	1960
Albania	37	125	22.5%	11	49	28.3%	39%	60%
Bulgaria	428	1,205	18.9%	233	572	16.4%	119%	92%
Czechoslovakia	1,938	3,810	11.6%	1,005	1,994	12.1%	108%	114%
East Germany	2,376	4,361	10.6%	1,280	2,191	9.2%	117%	99%
Hungary	1,038	1,850	9.9%	525	874	8.6%	102%	89%
Poland	1,773	2,850	8.0%	831	1,325	8.1%	88%	89%
Romania	0,688	1,365	13.0%	350	717	12.7%	109%	106%
Area total	8,278	15,566	11.0%	4,235	7,696	10.5%	105%	99%
Yugoslavia	579	1394	15.8%	240	567	15.4%	71%	69%
Total Eastern Europa	8,857	16,960	11.4%	4,475	8,289	10.8%	103%	96%
Soviet Union	6,250	11,079	10.0%	3,125	5,506	9.9%	100%	99%

Figure 8 illustrates that in 1959, the volume of commercial exchanges at current prices with the CMEA member countries without the USSR nearly tripled from 1950, rising from 16.2 million dollars to about 48 million dollars. However, their share in total, particularly after 1955, decreased. Eastern European countries accounted for 57% of Albania's trade in 1955, but this figure was 40 % in 1959, while in 1960 it fell to 31 % of total foreign trade.

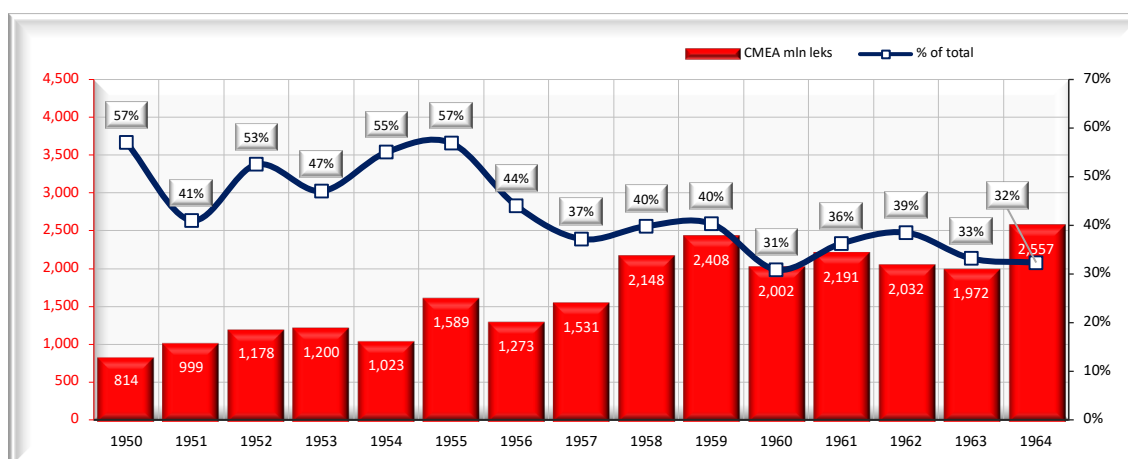


Figure 8. Albania's Trade exchanges with the CMEA members without the USSR in millions leks and as a %age of the total [14].

The Soviet Union accounted for 48% of Albania's exports in 1959, followed by Czechoslovakia with 20%, East Germany—14%, Hungary—7%, and so on. As for imports, in 1959, over 61 % came from the Soviet Union, 12% from Czechoslovakia, and

9 % from East Germany. The CMEA members, together with the Soviet Union, accounted for 94% of Albanian exports and 93% of Albanian imports in 1959. During the period from 1950 to 1960, the USSR emerged as the top partner in Albania's foreign trade, accounting for an average of 50.5%, primarily from imports, while the Republic of Czechoslovakia came in second, accounting for more than 14% of the turnover (Table 6.). Albania's five main partners in the 1950s were all CMEA member countries, together accounting for, on average, almost 86 % of the total turnover, i.e., the vast majority of it. After 1948, trade within the CMEA members countries dominated the total volume of the other member countries as well.

Even after reducing their diplomatic representation in Albania after 1961, the CMEA countries, with the exception of the USSR, continued to trade with Albania. For a brief period following the decrease in the early 1960s, commerce with CMEA member countries returned to levels seen in the 1950s. Albania's trade volume grew rapidly between 1955 and 1960, as shown in Figure 9, which shows this growth at 1971 constant prices. Between 1955 and 1960, trade grew by an average of 18 % annually, compared to an average of 14 % during the first half of the 1950s. However, this chart clearly demonstrates that the severed ties with the Soviet Union in 1961 negatively impacted Albania's commercial growth and exchange volume. Albania's foreign trade decreased by an average of 11% per year between 1960 and 1962.

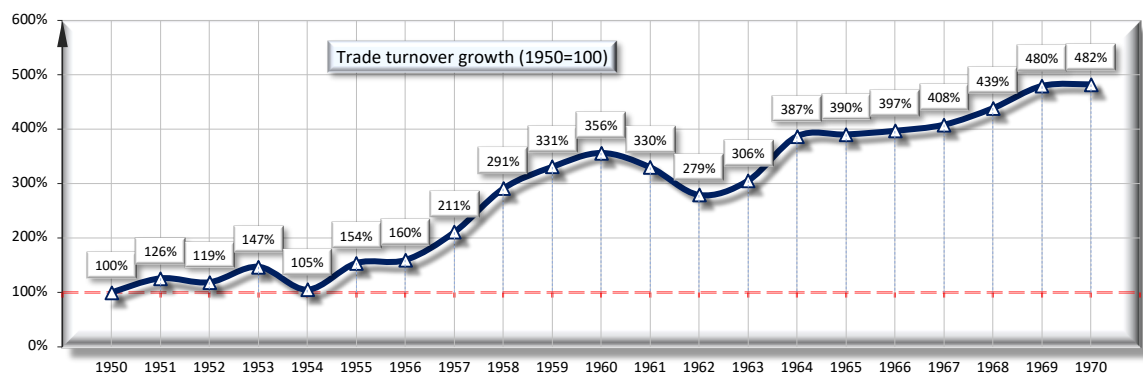


Figure 9. The increase in the volume of commercial exchanges in the period 1950-1970 at constant prices of 1971 (1950=100%) [36].

Table 6. Albania's top five trade partners from 1950 to 1960 (annual average, in million leks)

No.	Country	Export (million leks)	Import (million leks)	Turnover (million leks)	% of the total Turnover
1.	USSR	1,245	496	1,741	50.5%
2.	Czechoslovakia	316	173	489	14.2%
3.	East Germany	189	105	294	7.8%
4.	Poland	160	69	229	6.6%
5.	Hungary	145	75	220	6.4%

The developments in the 1950s and the variations in the volume of commercial exchanges in 1953–55 and 1961–64 are unmistakable signs of how political relations impact Albanian foreign trade and, in turn, the Albanian economy. Furthermore, Albania's foreign commerce suffered due to political conflicts and the abrupt termination of established links, which over time altered the geography of the countries with which Albania had trading relations.

8. The gradual growth of China's share in foreign trade

Another phenomenon in the second half of the 1950s was the apparent growth of economic-political relations with the People's Republic of China. China's trade credit offered at the end of 1954 marked the beginning of the economic cooperation between the two countries. The increase of China's share in Albania's foreign trade verifies the growth of this cooperation. Moreover, while in 1955, Chinese loans only covered 4.2% of Albania's negative trade balance; in 1956, they covered 17%; and in 1957, their share of the total loans offered to Albania reached 21.6%.

In 1960, the People's Republic of China became one of the five main partners, displacing Poland, Hungary, and East Germany. China had gradually increased trade exchanges with Albania from their initiation in 1955, when its contribution was 2.27%, to 7.3% in 1960, and to reach 19% of the total volume in 1961. However, in 1960, the most important trading partner of Albania remained the USSR with 57%, followed by the Czechoslovak Socialist Republic with 12.6% of the total trade; in third place was China with 7.3%, and then Poland and Hungary with 4.9% each. With a trade value of 252 million leks (about 5 million US dollars), East Germany ranks as Albania's 6th most significant partner, accounting for 4.1% of the total turnover.

At the same time, the trade turnover between Albania and China had increased, and in 1957 it was 5 times higher than in 1955. Such an orientation of foreign trade was completely unnatural for Albania and showed that ideological criteria influenced much more than economic consideration in the choice of commercial partners.

9. Trade with the Western countries

The level of exchanges with non-communist countries, including neighbours and Western European countries, was minimal, especially in the 1950s. Following Stalin's death, Moscow reconciled with Belgrade and exercised pressure on Albania to reduce tensions with Yugoslavia. But the Albanian government took a different stand, which led to ongoing strained relations between Albania and Yugoslavia. The strongest evidence of this was the level of trade between the two neighbouring nations. Between 1955 and 1960, Yugoslavia barely contributed 0.4% of Albania's overall trade.

Figure 10 shows the volume of trade with non-communist countries in the 1950s and 1960s. It seems that there is a positive trend—while in 1950 trade with Western countries was non-existent, in 1960 it reached about 5 million dollars, and their average annual growth rate was about 29%, or twice the growth of the total turnover in Albania's foreign trade (for the period 1950-1960). Simultaneously, their share of the total volume also

increased. From about 2% in the mid-1950s, Western countries accounted for 4% of the total volume in 1960 to about 9% in 1964. The main partner from Western countries in the 1950s was Italy, which in 1960 accounted for about 3% of the volume of Albania's foreign exchanges. In 1954, the first important commercial agreement was signed between two governments. According to the agreement, Albania would export to Italy crude oil, chromium, bitumen, wool, leather, medicinal plants, sand for the glass industry, and wood for industrial use, while Italy would export textiles, jute bags, ropes, leather, industrial oils, food fats, spare parts, chemicals, and pharmaceuticals.

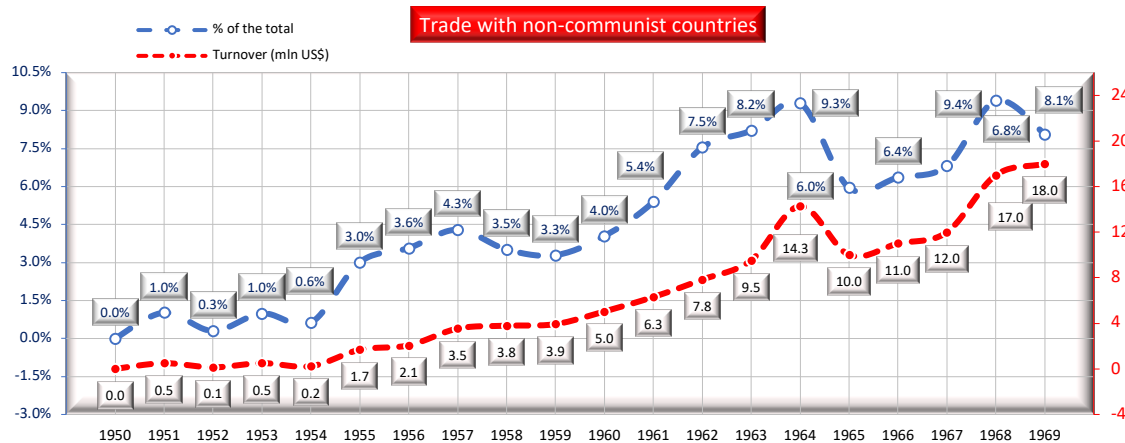


Figure 10. Trade with non-communist countries. Turnover as a %age of the total, and in million US\$ (1950-1969) [38].

Positive or negative fluctuations in the volume of trade with Western countries correspond, respectively, to years of political crises with Albania's dominant foreign trade partner (s) and greater financial support from it. The second half of the 1960s coincided with a significant increase in financial aid from the People's Republic of China and a surge in xenophobic hysteria during the Maoist cultural revolution in Albania. As a result, in the mid-1960s, trade with non-communist countries suffered an annual decline of up to 30 %. However, only after 1978 did Western countries gain a truly significant share of the trade turnover.

10. Summary and conclusion

Before WWII, Albania's main trading partners were Italy, Greece, and the United States. It is quite interesting to note that not only did these countries cease to be Albania's main trading partners after the Second World War, but ideological considerations completely cut off trade with them, thereby distorting its natural channels of communication in the exchange of goods. From a strictly commercial perspective, Albania radically changed its trade partners after the Second World War, aligning foreign trade with the new political orientation. This is the case for all Eastern European countries. However, other Eastern European countries, whose geographical position differed from Albania's and whose regimes were less dogmatic, did not face the same pressure to make drastic changes in their economic partners.

Foreign financial contributions aided the communist regime's aggressive industrialization policy. The Soviet Union and other socialist countries provided loans under preferential terms to cover Albania's trade deficit while also aiding in the development of its industry. Albanian leaders hoped that the expansion of the processing, agricultural, and mining industries, leading to rapid industrial development, would broaden product exports and boost the country's export capacity.

The People's Republic of Albania's foreign trade exchanges grew due to investments prioritized in the processing industry during the period 1950-1960. The deficit in trade with the Soviet Union and the CMEA countries, despite the development of the mining industry and the increase in the volume of exports, continued to be chronic throughout the 1950s

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